



## MULTI MANAGER TARGET RETURN FUND

QUARTER 2 (Q2) 2016: APRIL TO JUNE

Welcome to the second edition of the Multi Manager Target Return Fund quarterly updates. In this edition...

- We review some key moments and economic events impacting on stock markets and investor confidence during quarter two (from April to June)
- Which asset classes were up and which were down?
- A review of the structure of the fund and a summary of the fund managers and their strategies
- An insight from the Peter Haran, Head of Alternatives, on how the managers' funds and strategies performed
- We take a look at the drivers of the very strong performance since launch in January (+5.7%) by strategy and by individual fund.

The Multi Manager Target Return Fund invests in a number of external funds managed by expert investment managers. The underlying funds invest in a wide range of assets, using a variety of investment strategies. This fund aims to achieve a gross return of 4% over cash, measured over a rolling four-year period. This is an Irish Life fund managed by Irish Life Investment Managers (ILIM).

### 1 UNIQUE MULTI MANAGER APPROACH:

- Accesses world class, diversified manager styles and skill sets
- Reduces single manager or single fund selection risk
- A robust and flexible manager selection process seeks to maximise investment opportunities

### 2 CLEAR CASH + TARGET RETURN:

- Aims for a gross return of 4% per annum over cash\* measured over a rolling 4-year period\*\*
- Targets positive returns not directly linked to market ups and downs

### 3 BENEFIT OF TARGET RETURN FUNDS:

- Seeks equity-like returns with less volatility (volatility is potential ups and downs that a fund may experience over time)
- Diverse source of return which helps smooth the investment journey.

**Warning: If you invest in this fund you may lose some or all of the money you invest.**

**Warning: The value of your investment may go down as well as up.**

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\* 4% return over cash, where cash is measured by EONIA (Euro Over Night Index Average) which is the rate at which banks provide loans to each other with a duration of 1 day. 4% target is gross of standard charges and net of external manager variable charges.

\*\* This means that the return will be calculated as the average annual return achieved over the previous four years.

# QUARTER 2 2016 ECONOMIC LOOK-BACK

By David Haslam

## SPRING SPRUNG...

Markets calmed in Spring after a volatile start to 2016 and the main asset classes delivered modest positive returns. Concerns over China and global growth eased as economic data improved and developed markets proved quite resilient. Late in the quarter the UK vote to leave the European Union (Brexit) saw the return of Q1 levels of market volatility both in the run up to and in the immediate aftermath of the vote but somewhat reassuringly, markets settled down fairly quickly soon after. It remains to be seen what impact the outcome will have on investor confidence going forward with many having already reduced exposure to UK assets and to sterling in the run up to the vote.



## THE NAME IS BOND... NEGATIVE YIELDING BOND...

Needless to say, bonds enjoyed a strong period of performance as investors digested the uncertainty that may lie ahead. Despite the low yields available in absolute terms, investors flocked to the safe haven of high grade sovereign bonds with the German 10 year bond yield going negative and reaching all-time lows of -0.16%. Inflation was also persistently low and is expected to remain so despite the rebound in oil prices.

## MADE IN CHINA...

China has experienced a confidence rollercoaster in last 12 months initiated by some weaker economic data in August last year prompting investor concern that the Chinese growth story was coming to an end. Since then we have seen a series of government led initiatives to bolster confidence which have impacted very quickly and delivered an improvement in some key economic areas like infrastructure, retail sales and industrial production. Confidence, measured by purchasing managers intentions to spend, has returned to its highest level in a year.

## ECB-EEZY...

In March the ECB announced an expansion to their asset purchase programme to €80 billion per month and broadened the scope of assets it could buy to include non-financial corporate bonds. This was not expanded in Q2 but 'monitored' to gauge its effectiveness with the potential to increase in future should the impact of Brexit further reduce inflation expectations. The ECB also indicated interest rates will stay at current or lower levels for an extended period.

## SHARES, BONDS, COMMODITIES AND CURRENCIES

The MSCI All Country World Index\* rose 1.4% (3.8% in €) over the quarter while the UK rose 6.7% (1.8% in €) despite Brexit.

The US market rose 2.6% (5.2% in €) as a result of a smaller rise in interest rates than expected and suggesting an improvement in the profit outlook for US corporates. Japan however fell 7.8% (+3.6% in €) as the Bank of Japan failed to meet investor expectations on monetary policy initiatives. European markets fell 0.6% on fears of contagion around Euro scepticism following Brexit.

The Eurozone >5 year sovereign bonds were 3.3% at the end of June while the German 10 year bond yield fell to -0.14%.

Commodities rose 12.7% driven by Oil (up 25%) and Gold (up 6.8%). The Euro fell against the dollar to \$1.11 as investors again looked for safety in the worlds' largest currency.

**Source:** David Haslam, Head of Retail, Irish Life Investment Managers (ILIM), June 2016.

# QUARTER 2 2016 FUND UPDATE

By Peter Haran, Head of Alternative Strategies

Peter Haran is the Head of Alternative Investments at ILIM. Peter joined ILIM from the National Treasury Management Agency (NTMA) in 2014 where he was Head of Investment Strategy for the National Pensions Reserve Fund (NPRF) for seven years. As chair of the NPRF Investment Committee, Peter was responsible for identifying investment opportunities and proposing tactical asset allocation positions across all asset classes. Before joining the NTMA Peter was a fund manager at IIU Asset Strategies.

Peter has a degree in Applied Mathematical Sciences and a Masters in Computer Applications from Dublin City University.



**The Multi Manager Target Return Fund was launched on the 23rd of January 2016. The fund invests in a range of external funds managed by world class investment managers. We strongly believe that target return funds should be delivered in a manner that reduces fund selection and single manager risks, while benefiting from the increasing number and type of strategies available in the market place. This is achieved in the Multi Manager Target Return Fund by investing in a range of investment strategies through multiple external fund managers.**

## FUND STRATEGIES

The Multi Manager Target Return Fund Returned +1.4% in the second quarter and has returned +5.7% since it was launched in January of this year.

The positive performance in the second quarter was driven by the performance of the Core portfolio which includes allocations to three funds; the GMO Real Return Fund, the AQR Risk Parity Fund and the Putnam Total Return Fund. ILIM believe that the Core portfolio should include high quality funds that operate very different approaches to allocating between asset classes. This approach provides diversification, protecting investors from being over exposed to any particular investment style. This could be seen in the second quarter where there was significant divergence in performance between the Core funds with GMO returning 0.2%, Putnam +3.9% and AQR returning 6.1%.

Performance in the Satellite funds was mixed with Alternative Return strategies resulting in -1.7% while Credit strategies added +1.5%.

The outcome of the UK referendum on EU membership in late June had limited impact on the fund. While the Core portfolio saw some losses in the 24 hours following the result this was offset by the performance of some of the satellite strategies and recovered in a few days in any case.

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## PORTFOLIO UPDATES

No changes were made to the manager line up or to the investment allocations during the second quarter.

It is intended that the fund will exit the Putnam Total Return Fund early in the third quarter and that the allocation will be moves to the Putnam Multi-Asset Absolute Return Fund ("MAARS"). Further information will be provided on the rationale for the change and on the investment strategy of the MAARS fund in the next quarterly report.

## FUND STRUCTURE

The Multi Manager Target Return Fund consists of a mix of core and satellite fund strategies.

The "core" portion of the portfolio is invested primarily to provide exposure to more traditional asset types such as equities and bonds. By investing in a variety of different investment styles, the core strategy aims to deliver diverse market based returns with lower risk than broader equity markets.

The "satellite" portion is invested to provide diversification to these traditional asset types. Satellite strategies make up a smaller portion of the fund and seek to achieve higher returns through external manager skill rather than market performance alone.

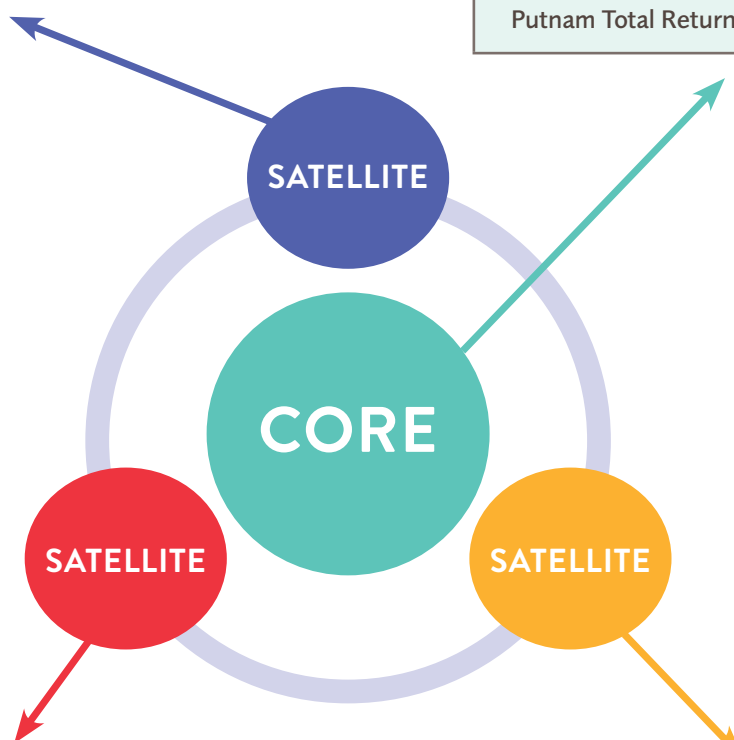
# CORE AND SATELLITE STRATEGIES

## Alternative Return Strategies

FUND	MANAGER ASSETS
JP Morgan Systematic Alpha Fund	€1.68tn*
AQR Style Premia Fund	\$153bn*

## Diversified Return Strategies

FUND	MANAGER ASSETS
GMO Real Return Fund	\$99bn*
AQR Global Risk Parity Fund	\$153bn*
Putnam Total Return Fund	\$147bn**



## Global Opportunity Strategies

FUND	MANAGER ASSETS
Montlake Dunn WMA Fund	\$1.03bn***
Morgan Stanley Alpha Fund	\$2tn*

## Credit Strategies

FUND	MANAGER ASSETS
Blackrock FIGO Fund	\$4.7tn*
PIMCO Income Fund	\$1.52tn*

\*Correct as at March 31 2016.

\*\*Correct as at May 31 2016.

\*\*\*Correct as at June 30 2016.

<b>ALTERNATIVE RETURN STRATEGIES</b>	These are non-traditional strategies relying on 'hedge fund' / skill based strategies.
<b>DIVERSIFIED RETURN STRATEGIES</b>	These strategies aim to deliver equity market type returns using different investment approaches.
<b>GLOBAL OPPORTUNITIES STRATEGIES</b>	These managers monitor themes or trends in markets and invest to take advantage of identified opportunities. Some are very short term, some are over longer periods.
<b>CREDIT STRATEGIES</b>	These strategies aim to generate return by investing in traditional and non-traditional types of credit such as corporate bonds and mortgage backed securities.

# FUND SUMMARY

## DIVERSIFIED RETURN STRATEGIES

<b>GMO Real Return Fund</b>	This is an actively managed portfolio of assets with GMO choosing these assets across different asset classes driven by their own internal models, which focus strongly on valuations.
<b>AQR Global Risk Parity</b>	This large, well-diversified fund chooses investments based on a risk-weighting approach and aims to provide higher risk-adjusted returns than traditional market exposures. The fund consists of over 50 underlying investments across three main asset categories.
<b>Putnam Total Return Fund</b>	This is an actively-managed fund which aims to deliver a similar return to a standard 60/40 (equities/cash) portfolio over time but with lower risk and volatility. The fund uses a risk-weighted allocation approach.

## ALTERNATIVE RETURN STRATEGIES

<b>AQR Style Premia</b>	This fund aims to produce high, risk-adjusted returns while maintaining low-to zero correlation to traditional markets. This is achieved by constructing a global diversified, absolute return portfolio with exposure to a number of investment styles.
<b>JP Morgan Systematic Alpha</b>	This fund consists of a global portfolio of investments and aims to provide a total return in excess of its cash benchmark by implementing strategies similar to those employed by hedge funds using liquid instruments.

## CREDIT STRATEGIES

<b>BLACKROCK FIGO</b>	This fund is a global fixed interest fund that aims to generate returns from long and short exposures in credit markets. Typically, the fund may have exposure to many non-traditional credit risks such as mortgage-backed securities and emerging market debt which helps diversify the more traditional fixed interest investment exposures found in multi-asset funds.
<b>PIMCO Income</b>	This fund seeks to generate a competitive monthly dividend while also maintaining a focus on a long term return. The fund aims to achieve this by employing PIMCO's best income generating ideas across global fixed income sectors with an explicit mandate on risk-factor diversification.

## GLOBAL OPPORTUNITIES STRATEGIES

<b>Montlake Dunn WMA</b>	This fund focusses on medium to long-term investment trends. It takes long and short positions in financial, energy, metal and agricultural futures markets. This fund aims to generate profits from investments with a very low correlation to traditional asset classes.
<b>Morgan Stanley Diversified Alpha</b>	This fund aims to give a net 10% annual return over a market cycle, with lower than equity market volatility. This is achieved by identifying several, multi-year investment trends (for example China weakening, a European recovery and US rates rising sooner than the market expects) and investing in asset classes that will benefit accordingly. All positions and themes are actively reviewed and managed.



The funds that the Multi Manger Target Return Fund invests in may change over time. For the actual Multi Manager Target Return Fund mix, see the latest factsheet at [www.irishlife.ie](http://www.irishlife.ie)

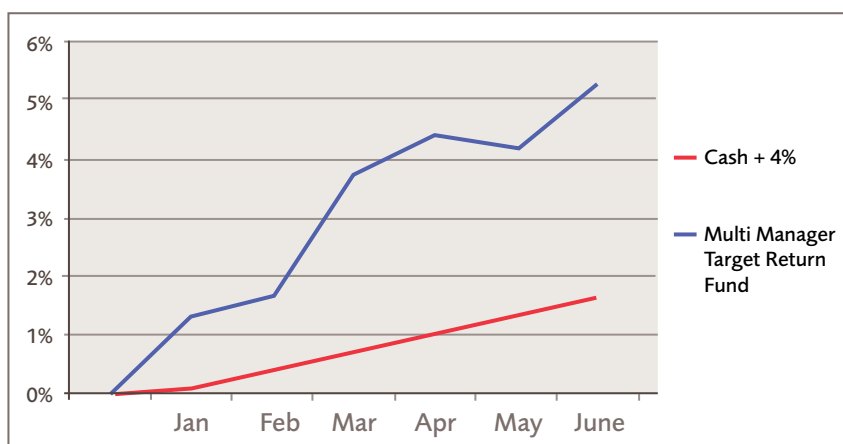
# PERFORMANCE

## Market Volatility

The quarter began with much uncertainty in advance of the Brexit referendum in the UK. Volatility levels continued to be high and the result of the referendum was unexpected. This was seen in the immediate aftermath as markets reacted negatively. The reaction proved short-lived however as market conditions improved in the aftermath of the referendum. Questions remain regarding the longer term impact on the UK and indeed on the EU in general.

### PERFORMANCE AGAINST CASH PLUS 4% BENCHMARK

The fund continues to perform well on an absolute basis and relative to benchmark. Diversified Returns in particular generated strong performance across the quarter with the Credit strategy also adding to overall returns. The fund weathered the Brexit vote well, with a positive return of +1% for June.

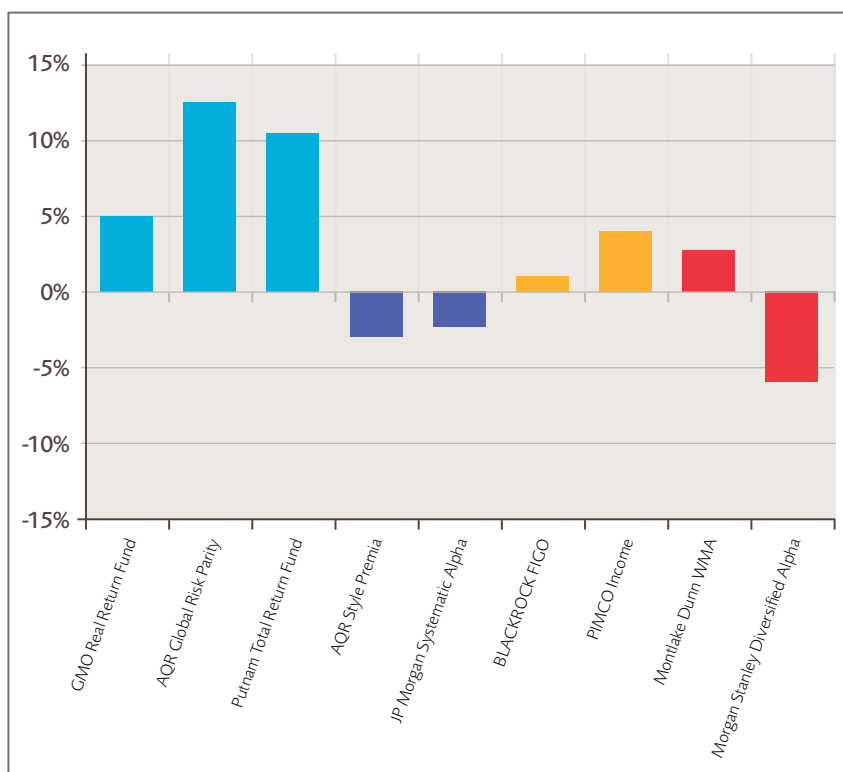


Source: Irish Life Investment Managers (ILIM).  
Returns show to 30 June 2016.

### PERFORMANCE BY FUND

AQR Risk Parity and Putnam Total Return Fund have continued to perform positively and are contributing to year to date performance. AQR is benefitting from strong bond market performance and particularly from a reversal of some of the losses on commodities in 2015. Putnam holds long positions in risk assets which worked well during the quarter. Montlake Dunn had a strong end the second quarter, illustrating the potential benefits of trend following strategies during periods of heightened volatility.

Note: the contribution to performance of an individual strategy or fund depends on the weight of that strategy or fund in the overall fund. Source: Irish Life Investment Managers (ILIM). Returns show to 30 June 2016.



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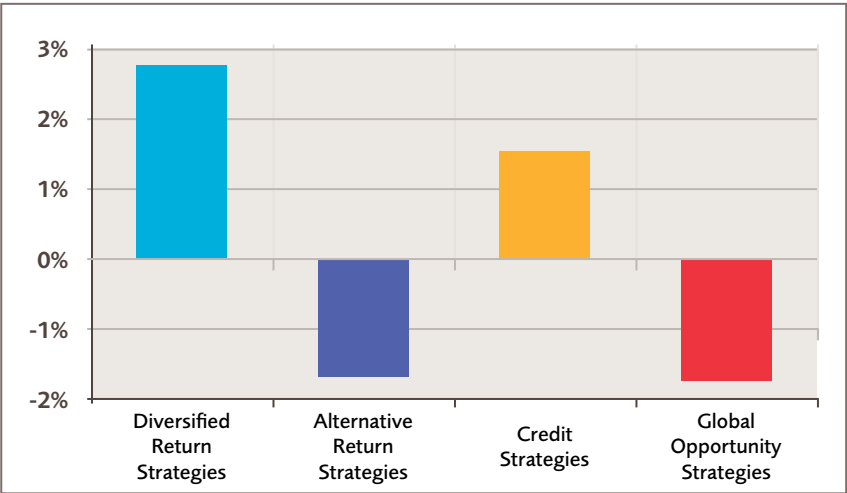
PERFORMANCE BY STRATEGY

**Diversified Returns** – This strategy contains exposure to broad market returns through allocations to equities and bonds which performed well.

**Alternative Returns** - Alternative Returns which replicate hedge fund type strategies, saw negative returns during the second quarter, driven primarily by losses on equity long/short and value strategies.

**Credit**- Credit performance was strong with good returns from a number of asset types including US High Yield and Euro Corporate Bonds.

**Global Opportunities**- Good performance on the trend following strategy was offset by losses on Macro themes including Europe recovery and quality equity long/short.



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## ILIM'S CREDENTIALS

### *About* Irish Life's investment managers

Our investment manager is internationally recognised for their expertise, innovation and track record and are multi award winners:



#### **2014 European Pension Award Winners -**

- Best Equity and
- Best Passive Manager Awards.

The only Irish investment manager to win an award and the only manager in Europe to win 2 awards.



#### **2014 Irish Pension Awards**

- Alternatives Investment Manager of the Year.

#### **2015 Irish Pension Awards**

- Investment Manager of the Year.



Our investment manager takes care of over

**€50 BILLION.**

**For more details please see [www.irishlife.ie/investments](http://www.irishlife.ie/investments) or contact your financial broker or financial adviser.**

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